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Brazil

Grain and Feed

Argentine Differential Export Taxes Distort Brazilian Wheat Market

2007

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Report Highlights:

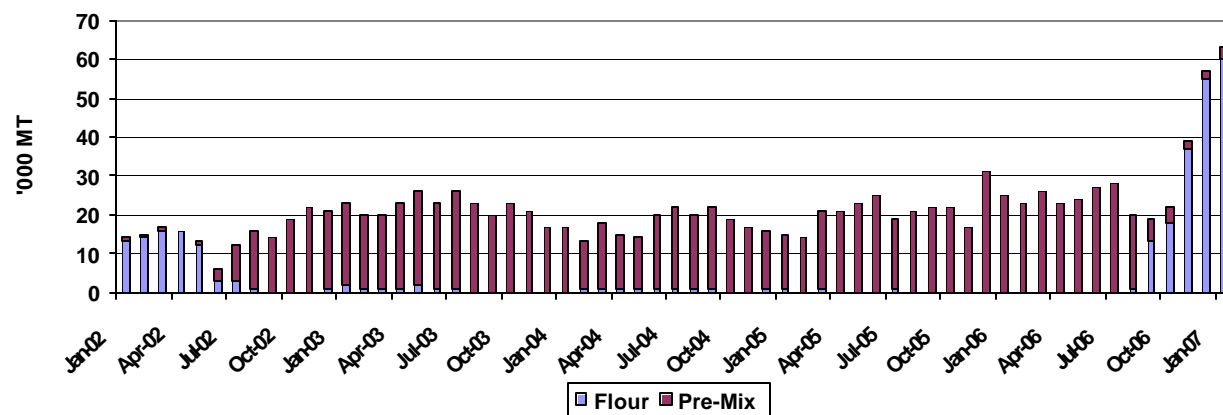
Argentina's changes to its export taxes have led to dramatic changes in Brazilian wheat and flour imports. Meanwhile, Brazil has allowed the Northeast's waiver to the Merchant Marine Tax to expire, making imports from countries outside Mercosul even more expensive, further restricting the options available to Brazilian millers. U.S. wheat export prospects remain positive, but would benefit from an extension of the merchant marine tax waiver. Only minor changes were made to the PSD table.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Brasilia [BR1]
[BR]

Brazilian wheat production last year was severely damaged by drought and frost, dropping total production over 50 percent from 2005. As a result of the scarce domestic supply, Brazilian wheat prices are currently very high. Reports indicate that wheat produced was low quality, increasing even further the amount of wheat that will need to be imported to meet domestic demand. However Argentina, the principal supplier of wheat to Brazil, has already committed half of its wheat to other countries, leading Brazilian millers to look outside of Mercosul. Current estimates of import requirements from outside of Mercosul range from 400,000 mt to 3 million mt, partly depending on how much of the Argentine commitments are switched to Brazil. Argentine traders rushed to register sales in mid-2006, when the government threatened to cut off exports. However, all wheat imported from outside Mercosul faces a 10 percent Common External Tariff (TEC). In addition, there is a 25 percent merchant marine tax on freight. For the last 10 years, ports in the Northeast of Brazil had a waiver from this tax, allowing the United States to compete in this region, as the distance was about the same from the U.S. Gulf and Argentina. However, the Government of Brazil chose not to extend this waiver, and it expired in January 2007. As a result of the TEC and the merchant marine tax, non-Mercosul wheat would cost millers around 30 percent more than Argentine wheat. To date, the Brazilian government has not responded to industry requests to extend the waiver on the merchant marine tax or to lower the import tariff. If nothing changes, it appears likely that the cost of bread in Brazil will rise and food consumption may decrease. Many millers are covered until March, so the next few months will be key.

Brazilian wheat millers must not only contend with high prices and limited supply, but also with increasing competition from Argentine flour primarily as a result of the Argentine differential export taxes. In 2002, Argentina changed its export tax regime so that the export tax on pre-mix was lower than the export tax on flour and grain. Brazilian imports of flour plummeted and pre-mix imports rose. Many in the Brazilian industry claimed that these "pre-mix" imports were actually flour. The export tax on pre-mix was lowered even further, to 5 percent, at the end of 2005, leading to an even greater increase in pre-mix exports to Brazil. Meanwhile, wheat grain and flour was taxed at 20 percent. In October 2006, soon after Brazilian Customs began to inspect the pre-mix imports more closely, Argentina decided to equalize its flour and pre-mix export tax at 10 percent, leaving the export tax on grain at 20 percent. In the months that have followed, two effects of this action have resulted. First, Brazilian imports of pre-mix have plummeted and have been replaced by flour. Secondly, the difference between the export tax for grain (20 percent) and flour/pre-mix (10 percent) has led to a dramatic increase in the amount of flour shipped to Brazil, both in absolute quantity and as a percentage of total wheat shipments. Over the last five years, flour and pre-mix averaged 4.7 percent of total wheat shipped to Brazil. Since November, flour and pre-mix jumped to 7.4 percent of total wheat shipments. This is partly due to the fact that, with the significant difference in Argentine export taxes and the current exchange rate (R\$1=1.49 pesos), Argentine flour costs up to 30 percent less than Brazilian flour, and it can be more economical for the Brazilian industry to import Argentine flour than to import the wheat and mill it themselves.

Argentine Flour Exports to Brazil



Wheat

Brazil							
Wheat							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official []	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2004		10/2005		10/2006	MM/YYYY
Area Harvested	2756	2756	2360	2361	1700	1758	(1000 HA)
Beginning Stocks	508	508	1349	1376	1333	1116	(1000 MT)
Production	5845	5845	4873	4873	2250	2234	(1000 MT)
TOTAL Mkt. Yr. Imports	5211	5238	6718	6574	7500	7500	(1000 MT)
Jul-Jun Imports	5309	5368	6194	6015	7500	7500	(1000 MT)
Jul-Jun Import U.S.	55	55	30	39	0	200	(1000 MT)
TOTAL SUPPLY	11564	11591	12940	12823	11083	10850	(1000 MT)
TOTAL Mkt. Yr. Exports	15	15	807	807	50	5	(1000 MT)
Jul-Jun Exports	14	15	771	771	50	40	(1000 MT)
Feed Dom. Consumption	300	300	600	600	100	300	(1000 MT)
TOTAL Dom. Consumption	10200	10200	10800	10900	10400	10500	(1000 MT)
Ending Stocks	1349	1376	1333	1116	633	345	(1000 MT)
TOTAL DISTRIBUTION	11564	11591	12940	12823	11083	10850	(1000 MT)